BUSINESS & LABOR
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BILL NO. HB 119

Laslovich, Jesse

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Senator Berry,

You have asked for a review of the five individual components of the Accreditation Bill (HB 119). Please consider the following as such. Should you have any questions, please do not hesitate to ask.

1. Risk Management (ORSA) (Sections 1-9)

The purpose of the act is to ensure large insurance companies maintain a usable risk management framework. A risk management framework is an internal study to assist insurers identify, assess, monitor, manage, and report on material risk to the insurer. It is purely meant to have all large insurance companies assessing risk in a consistent fashion, and then reporting on that risk to state regulators across the country. Currently, no companies in Montana would be subject to completing an ORSA because no Montana company writes more than $500,000,000 in business (the exemption threshold).

2. Standard Valuation of Reserves (Sections 10-22; 37-38)

Standard valuation of reserves essentially creates a framework for life insurers to value reserves that is consistent throughout the country. This ensures all state insurance regulators and companies are on the same page regarding how much risk is actually present. This law calls for the commissioner to periodically adopt a "valuation manual" which will be used to value said reserves. Included in the valuation manual are methods for reserving, preserving loss data, etc. This also includes principle based reserving (PBR). PBR is a method to quantify the benefits and funding associated with contracts. PBR also ensures risks are at a level of conservatism that reflects conditions, including potential unfavorable events.

3. Holding Company Enterprise Risk (Sections 23-32, 39)

The holding company laws give the commissioner the ability to look at groups of insurers to identify risk and structural integrity within the holding company system. The most significant change to the already present laws is to add a definition of "enterprise risk." This basically makes sure that holding companies identify any risk which will likely have an adverse effect on the financial condition of the holding company system. Moreover, the current laws deal specifically with acquisitions; the amendments add divestiture to that framework.

4. Credit for Reinsurance (Sections 33-34)

A domestic insurer may use credit for reinsurance to help cover its required reserves. The amendments make it easier to receive that credit when dealing with federally accredited and/or commissioner certified reinsurers. They also require an assuming insurer that has permanently discontinued underwriting new business to reduce the required surplus amount.

5. Risk Retention Groups (Section 35-36)

An RRG is a type of insurance company that requires two things: all members must be owners and all owners must be members. In short, there is buy-in from the membership to keep costs low. The RRG amendments are related to corporate governance. They essentially make sure that the board is:

1. not controlled by a single member,
2. is communicating with its membership, and
3. approves contracts and future business operations.